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TAGS: [EINV](#) [ECON](#) [VE](#)
SUBJECT: MEETING WITH ELECTRICIDAD DE CARACAS ON
NATIONALIZATION ANNOUNCEMENT

REF: A. CARACAS 59

[1](#)B. CARACAS 84

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treat accordingly.

[1](#)1. (SBU/NF) Summary: EconCouns met with Electricidad de
Caracas (82 pct owned by AES a U.S. company) President
Nebreda January 16 regarding BRV intentions to nationalize
the electricity sector (refs). Nebreda said that AES always
considered nationalization in their scenario planning, but
the announcement caught them by surprise (AES owns
approximately 82 percent of EDC). He added that they had not
yet heard from the BRV, and that the company's book-value,
around USD 2.2 billion, would be the rough order of
compensation expected. He noted that in conversations with
individuals close to the BRV (read: diputados) there had been
no indication that EDC had been singled-out because it was a
U.S. company, but he did not discount it either. End Summary.

[1](#)2. (SBU/NF) EconCouns, accompanied by Econ Specialist, met
with EDC President Julian Nebreda and EDC Vice President
Scarlett Alvarez on January 16 to get their take on Chavez'
January 8 announcement that he would nationalize the
electricity sector (refs), and specifically Electricidad de
Caracas, of which AES owns approximately 82 percent.
Nebreda, who was out of the country with AES management when
the announcement was made, said they had not expected the
announcement, although they had always considered
nationalization in their scenario planning since the sector
was considered "strategic" in Chavez' mind. If
nationalization were to occur, AES (like others) had expected
the BRV to announce candidates in other sectors first, before
getting to electricity, which would have given them some
lead-time.

[1](#)3. (SBU/NF) Nebreda said that he had not yet heard directly
from the Ministry of Energy and Petroleum or any other BRV
officials, beyond press and public announcements by BRV
officials, although Nebreda said some government officials
(most likely diputados) had told them the nationalization
might not go through. (Comment: We seriously doubt this, as
Chavez and other senior BRV officials have been unequivocal
in their declarations. BRV officials have publicly stated
that the nationalization would likely take place via the
broad enabling law process and the rights of minority
shareholders would be protected. End Comment.) Nebreda

thought that if shareholder rights were respected (read: the idea of adequate and effective compensation respected) then the parties would begin a negotiating process which could easily take six or more months. (Note: six months appears to be the government's timetable according to BRV public statements. End Note.) On the issue of compensation, Nebreda indicated that the book-value of AES's investment was around USD 2.2 billion and that would be the rough magnitude of compensation AES would expect. Nebreda noted that AES' EDC investment was held through a Dutch holding company which benefited from a bilateral investment treaty the two countries.

14. (SBU/NF) EconCouns asked Nebreda if he thought the BRV action stemmed from AES being an American company. Nebreda replied that in their conversations with "people close to the government" (read: diputados) there had been no indication the action was taken because the company was American-owned; however, he could not rule out the possibility (ref b). Although EDC was a profitable operation, Nebreda did not see this as a primary motivation for the BRV's decision. Nebreda reiterated that he thought Chavez simply saw the sector as a strategic one (read: I don't want anyone turning off the lights). Nebreda noted that AES was not pleased and disagreed with some of the snide remarks Chavez has made regarding AES history in the Dominican Republic (note: Nebreda previously ran AES's operation in the DR), and that AES was not supporting the BRV's energy savings plan.

15. (SBU) Comment: Ironically, unlike the telecommunications sector, which was privatized in the 1990s, EDC has been a private company for over a century. AES bought their interest in EDC in 2000 for approximately USD 1.7 billion -- when Chavez was president. EDC traded shares fell around 40 percent a week after the announcement and

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currently stand 28 percent below the preannouncement value. The recovery seems to stem from BRV statements that minority investors will be fairly compensated. Chavez' more recent lame quips to the press to justify his nationalization moves center around the claim that the companies were not meeting their social obligations. We will stay in close contact with EDC as the process moves forward.

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